



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

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Senators Call for Hearing on Proposed IRS Program *Proposed Pilot Program for Earned Income Tax Credit Violates Privacy*

(WASHINGTON, D.C.) In continued efforts to halt an Internal Revenue Service (IRS) program that requires low-income Americans to disclose intrusive personal information, Senator Max Baucus and Democratic and Independent members of the Senate Finance Committee today sent a letter to Finance Committee Chairman Charles Grassley calling for hearings to investigate the IRS program and search for alternatives.

On June 13, 2003, the IRS announced a new pre-certification program for the (EITC). The EITC is a refundable Federal income tax-credit for low-income working individuals and families, determined by income and family size. Under the IRS pre-certification program, in order to qualify for the Earned Income Tax Credit, taxpayers would now have to submit personal information, including third-party validation such as medical records, letters from religious leaders, and other private material that is not required for any other tax credit.

In the letter to Chairman Grassley, the Senators stated that a hearing is necessary because the IRS pre-certification program, "is based on flawed IRS data, inefficiently utilizes scarce IRS resources, runs counter to the principles of our voluntary self-assessment tax system and congressional intent, and relies on questionable authority to proceed."

Last week, 45 Senators joined together to urge President Bush to prevent the IRS program from being implemented, stating their concern that the program would discriminate against low-income Americans and prevent them from receiving the tax relief they need.

Full text of letter to Chairman Grassley follows:

July 22, 2003

The Honorable Charles E. Grassley
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

On June 13, 2003, the Internal Revenue Service (IRS) formally announced a new pre-certification program for the Earned Income Tax Credit (EITC). We, along with 35 of our colleagues, have raised serious concerns with the President regarding the approach the IRS has chosen to take with the proposed pre-certification program.

The program would increase IRS intrusion into the personal lives of taxpayers, impose a significant burden on those taxpayers eligible for the EITC, unfairly discriminate against low-income working families, and fail to provide certainty to taxpayers. The pre-certification program also may violate the equal protection and due process clauses of the United States Constitution, is based on flawed IRS data, inefficiently utilizes scarce IRS resources, runs counter to the principles of our voluntary self-assessment tax system and congressional intent, and relies on questionable authority to proceed. We have attached a copy of the letter we sent to the President providing a more detailed discussion of each of our concerns.

We believe there are a variety of alternative solutions to improve EITC noncompliance that are less controversial and have broad support. These options should be implemented before allowing the IRS to pursue any new burdensome and expensive pre-certification program. These alternatives include: (1) establishing a uniform definition of a child, (2) creating an accurate compliance measurement system, (3) regulating paid preparers, (4) requiring mandatory testing of EITC forms, (5) simplifying the abandoned spouse requirements, and (6) centralizing the IRS office location for EITC processing.

Since it was first envisioned in 1972 by then Chairman Russell Long, the Finance Committee has been at the forefront of the broad bipartisan support for the EITC. The Finance Committee Report on the Tax Reduction Act of 1975 stated that the EITC's most significant objective should be "to assist in encouraging people to obtain employment, reducing the unemployment rate and reducing the welfare rolls." On the Senate floor, Senator Long said that the EITC was needed to "provide tax relief to people who are too poor to pay income tax, but who still pay social security tax and bear the burden of the social security tax paid by their employers." Later, President Reagan called the EITC, "[t]he best anti-poverty, the best pro-family, the best job creation measure to come out of the Congress." In 1991, Senator Packwood said that the EITC is "a key means of helping low-income workers with dependent children get off and stay off welfare."

In light of these concerns and the other, more appropriate ways to minimize EITC overpayments, we request that the Finance Committee conduct a hearing to thoroughly review the IRS's pre-certification program and the alternative compliance initiatives prior to allowing the IRS to go forward with its planned implementation.

Sincerely,

Max Baucus
John Rockefeller
Tom Daschle
John Breaux
Kent Conrad
Bob Graham
James Jeffords
Jeff Bingaman
John Kerry
Blanche Lincoln

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